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CAPITAL ENVIRONMENT HOLDINGS LIMITED

首創環境控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 03989)

CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF NON-CONTROLLING INTEREST IN A SUBSIDIARY

INTRODUCTION

The Board is pleased to announce that on 20 November 2023 (after trading hours), the Buyer (an indirect wholly-owned subsidiary of the Company) entered into the SPA in relation to the Acquisition.

PRINCIPAL TERMS OF THE SPA

Date:

20 November 2023

Parties:

- (i) Duyun City People's Government (都匀市人民政府);
- (ii) Buyer;
- (iii) Seller; and
- (iv) Target Company

As at the date of this announcement, the equity interests of the Target Company are held as to 62.09% by the Buyer and 37.91% by the Seller. Therefore, the Seller is a substantial shareholder of the Target Company and is regarded as a connected person of the Company at the subsidiary level. As such, the Acquisition constitutes a connected transaction under Chapter 14A of the Listing Rules.

Subject:

Pursuant to the SPA, the Seller has agreed to sell, and the Buyer has agreed to acquire, the Sale Interests, which represents the remaining approximately 37.91% equity interests in the Target Company, at the Consideration.

Consideration and completion:

The Consideration shall be RMB52,000,000. Pursuant to the SPA, as agreed between the Buyer, the Seller and Duyun City People's Government, the Consideration shall be off-set by the Debts (which are of an aggregate amount equivalent to the Consideration and owed by Duyun City People's Government to the Buyer) and shall be paid by Duyun City People's Government to the Seller direct at the time and in a way as agreed between the said two parties. The Consideration was determined after arm's length negotiations between the parties to the SPA having taken into account of, among other things, the registered and paid-up capital of the Target Company, the financial performance of the Target Company and the cooperation background among the Buyer and the Seller as explained in more details in the section headed "Reasons for and benefits of the Acquisition" in this announcement.

Following the completion of the relevant registration with the competent authority in respect of the transfer of equity interests in the Target Company, the Consideration is deemed to be settled by the Buyer to the Seller while the Debts are deemed to be repaid by Duyun City People's Government to the Buyer.

INFORMATION ON THE GROUP

The Company is an exempted company with limited liability incorporated in the Cayman Islands and, together with its subsidiaries, principally engaged in investment, construction, operation and management of solid waste disposal projects, covering such areas of solid wastes as household waste, kitchen waste, various types of industrial hazardous waste, construction waste, electronic waste, and dismantling of end-of-life automobiles. The Group invests, builds, operates and manages waste treatment projects that cover the whole process from collection and transportation of waste to the very end of waste treatment, and is committed to becoming an integrated environmental operator that provides a package of environmental solutions for local governments.

The Buyer is a company established in the PRC with limited liability and principally engages in the investment, construction and operational management of solid waste treatment, including disposal and treatment of household waste, kitchen waste and industrial waste, and incineration and power generation. The Buyer is a wholly-owned subsidiary of the Company.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company established in the PRC with limited liability and principally engages in the business of waste treatment and waste-to-energy generation.

As at the date of this announcement, the equity interests of the Target Company are held as to (i) approximately 62.09% directly by the Buyer (which is, as at the date of this announcement, a wholly-owned subsidiary of the Company); and (ii) approximately 37.91% directly by the Seller. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company.

Set out below is a summary of the consolidated financial information on the Target Company for the two years ended 31 December 2022:

	For the year ended 31 December	
	2021	2022
	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>
Net profits before taxation	11,487	7,359
Net profits after taxation	11,487	7,017

The net asset value of the Target Company as at 31 October 2023 was approximately RMB158.7 million.

INFORMATION RELATING TO THE OTHER PARTIES TO THE SPA

The Seller is a company established in the PRC with limited liability and principally engages in the businesses such as the construction of urban infrastructure and major social projects, operation and management of state-owned assets, operation of public utilities, and land consolidation and development. Its main business focus includes public utilities and infrastructure projects. It is a substantial shareholder of the Target Company and is regarded as a connected person of the Company at the subsidiary level.

To the best knowledge, information and belief of the Directors, having made reasonable enquiries, the Seller is held directly as to (i) approximately 95.1537% by Qiannan State-owned Capital Operation Co., Ltd.* (黔南州國有資本營運有限責任公司), which is ultimately owned as to 100% by Qiannan Buyi and Miao Autonomous Prefecture State-owned Assets Supervision and Administration Commission* (黔南布依族苗族自治州國有資產監督管理局); (ii) approximately 3.0733% by CDB Development Fund Co., Ltd.* (國開發展基金有限公司), which is in turn directly held as to 100% by China Development Bank (國家開發銀行); and (iii) approximately 1.773% by China's Agriculture Development Key Construction Fund Co., Ltd.* (中國農發重點建設基金有限公司), which is in turn directly held as to 100% by Agricultural Development Bank of China (中國農業發展銀行), and each of the shareholders of the Seller is an Independent Third Party.

Duyun City People's Government (都勻市人民政府) is the local government of the place of business operation of the Target Company, who entered into the Duyun City Domestic Waste Incineration Power Generation Project Franchise Agreement (《都勻市生活垃圾焚燒發電項目特許經營權協議》) with the Target Company on 30 June 2015 pursuant to which a franchise right in respect of the project regarding domestic waste incineration was licensed to the Target Company. To the best knowledge, information and belief of the Directors, having made reasonable enquiries, Duyun City People's Government is an Independent Third Party.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Target Company was set up by the Buyer and the Seller pursuant to a joint venture agreement dated 3 February 2015. The Seller subsequently paid up the registered capital corresponding to its equity interests in the Target Company through the capital funds obtained from the relevant national special construction fund (國家專項建設基金) which was approved by the National Development and Reform Commission and such funding shall last for a period of 15 years. As a requirement under the said approval, the Target Company shall pay a fixed rate of investment return to the Seller in each financial year until the expiration of the funding period. Any profits of the Target Company after such payment of investment return shall be retained by the Buyer. Upon the expiration of the funding period, the Buyer shall acquire the equity interests then held by the Seller in the Target Company at a pre-determined consideration (i.e. RMB52 million), being the initial paid-up capital of 37.91% equity interests in the Target Company.

Since its establishment, the Target Company has engaged in the business of waste treatment and waste-to-energy generation. In particular, it has obtained from Duyun City People's Government the franchise right in respect of the project regarding domestic waste incineration where the Target Company would provide waste treatment services to the locality. Due to the change of local policy planning and governance, it has been agreed that the Buyer shall acquire the Sale Interests prior to the expiration of the funding period while at the same time having the outstanding trade balance incurred and owed by the Duyun City People's Government to the Target Company and a subsidiary of the Company (i.e. the Debts) being settled.

As the Target Company will become an indirect wholly-owned subsidiary of the Company upon completion, the Company is of the view that the Acquisition would facilitate more effective implementation of the business strategies and business expansion plans of the Company in respect of the Target Company's business. In addition, the Acquisition would allow the Group to reconcile trade receivables in a timely manner and ensuring the normal production and operation of the Target Company. Accordingly, the Directors (including the independent non-executive Directors) are of the view that the Acquisition is on normal commercial terms which are fair and reasonable and in the ordinary and usual course of business of the Group, and is in the interest of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition are less than 5%, the Acquisition does not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules.

As at the date of this announcement, the Seller is a connected person of the Company (at the subsidiary level) by virtue of being a substantial shareholder of the Target Company, and therefore the Acquisition constitutes a connected transaction under Chapter 14A of the Listing Rules. No Directors have a material interest in the Acquisition. Since (i) the Board has approved the Acquisition; and (ii) the independent non-executive Directors have confirmed that the terms of the Acquisition are fair and reasonable, and that the Acquisition is on normal commercial terms and in the interests of the Company and its shareholders as a whole, the Acquisition is subject to the announcement requirement but is exempt from the circular and independent shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

DEFINITIONS

In this announcement, the expressions listed below shall have the following meanings, unless otherwise specified:

“Acquisition”	the acquisition by the Buyer of the Sale Interests from the Seller pursuant to the terms of the SPA
“Board”	the board of directors of the Company
“Buyer”	Beijing Capital Environment Investment Limited* (北京首創環境投資有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“Company”	Capital Environment Holdings Limited (首創環境控股有限公司), a company incorporated with limited liability in the Cayman Islands, the shares of which are listed on the Stock Exchange (Stock Code: 03989)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	a total amount of RMB52 million
“Debts”	the debts of a total amount of RMB52 million owed by Duyun City People’s Government to the Buyer, of which approximately RMB4.4 million and RMB47.6 million were originally owed by Duyun City People’s Government to a subsidiary of the Company and the Target Company, respectively, whom subsequently assigned the same to the Buyer
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is/ are third party/parties independent of and not connected with the Company and its connected persons in accordance with the Listing Rules

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China which, for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC, and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Interests”	the registered and paid-up capital in the amount of RMB52 million of the Target Company, which is legally and beneficially owned by the Seller as at the date of this announcement, representing approximately 37.91% of the entire equity interest in the Target Company
“Seller”	Duyun State-owned Capital Operation Co., Ltd.* (都匀市國有資本營運有限責任公司), a company established in the PRC with limited liability
“SPA”	a sale and purchase agreement dated 20 November 2023 entered into between, among others, the Seller and the Buyer in respect of the Acquisition
“subsidiary(ies)”	has the meaning ascribed to such term in the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to such term in the Listing Rules
“Target Company”	Duyun Capital Environmental Protection Co., Ltd.* (都匀市首創環保有限公司), a company established in the PRC with limited liability and an indirect non-wholly-owned subsidiary of the Company as at the date of this announcement
“%”	per cent

* Denotes English translation of the Chinese name of a company or entity established in the PRC, or vice versa, and is provided for the sole purpose of identification.

By order of the Board of
Capital Environment Holdings Limited
Cao Guoxian
Chairman

Hong Kong, 20 November 2023

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Cao Guoxian, Mr. Li Fujing and Mr. Li Qingsong; one non-executive director, namely Ms. Hao Chunmei; and four independent non-executive directors, namely Mr. Pao Ping Wing, Mr. Cheng Kai Tai, Allen, Dr. Chan Yee Wah, Eva and Dr. Cao Fuguo.